

Key questions answered about Ottawa's takeover of the Trans Mountain pipeline project

The Toronto Star
June 1, 2018 Friday

Copyright 2018 Toronto Star Newspapers Limited

Section: NEWS; Pg.

Length: 1464 words

Byline: Bruce CampionTonda MacCharles Alex Ballingall

Body

OTTAWA—The federal government launched a rescue plan for the stalled Trans Mountain pipeline expansion, pledging \$4.5 billion as a downpayment on its political vow to move more Alberta oil to markets. The Star answers key questions about the move:

How much will it actually cost beyond the initial \$4.5 billion?

A lot. The \$4.5 billion committed by the federal government simply buys the Trans Mountain pipeline and assets associated with the work done so far on the expansion. Some \$1 billion has already been spent on work to twin the pipeline and analysts say it could take another \$6 billion to \$7 billion to finish. But there are other potential costs, even if Ottawa succeeds in finding another company to take on the project. The Trudeau government will extend indemnity or insurance to cover any “extraordinary” politically-motivated delays caused by any province or municipality, and will even promise to buy back the project if it confronts losses in the courts or cannot complete the project despite “commercially reasonable efforts.”

Some critics argue that, in addition to actual project costs, the price tag should include the \$1.5 billion over five years that Ottawa committed to a new Oceans Protection Plan, which beefs up coastal safeguards for Arctic and Atlantic waters as well as Pacific ones. It was a key demand by the former B.C. provincial Liberal government as a condition of its agreement to the project.

In the event that the government does not find a buyer and gets stuck with the pipeline, is it a good investment?

Federal officials hope to find another private sector company quickly, one with a greater appetite for risk than Kinder Morgan, to take on the project. If that fails, Canadian taxpayers will be the proud owners of a pipeline. Walid Hejazi, an associate professor at the Rotman School of Management, said that pipelines typically have “enormous returns.” The Trans Mountain pipeline now has a “revenue requirement” of \$287 million in 2017, the amount needed to cover its operating costs and produce a 9.5-per-cent return on equity, according to the National Energy Board. But governments have many priorities, and they all cost money, so tying up \$4.5 billion may not be the best use of government money over the long-term.

How many jobs for Canadians will be created?

The Canadian government says the project would create 15,000 new jobs during construction, and 440 permanent jobs a year during operation. And, Ottawa says, the pipeline expansion provides support to “thousands of jobs” in Canada’s crude oil production sector and supply chain. The company struck about \$300 million in mutual benefits agreements with about 43 Indigenous groups. But a 2015 study done for Metro Vancouver and B.C. said the job

Key questions answered about Ottawa's takeover of the Trans Mountain pipeline project

prospects were overstated, and construction of the pipeline would produce only around 4,000 new positions in the province.

What are the benefits for getting more petrol out to the coast?

About 97 per cent of Canada's proven oil reserves are located in the oilsands, and 99 per cent of Canada's oil exports go to the U.S., according to the Canadian government, which says the discounted oil equals a \$15 billion a year hit to the Canadian economy. The theory is that if more Canadian oil can be shipped to coastal ports, with the possibility of being sold directly to energy-hungry Asian markets, especially China, Canada would fetch a better price. According to Natural Resources Canada, Canadian oil sells for \$26 U.S. less a barrel than U.S. oil, and the price difference is costing Canada's oil sector up to \$40 million a day in lost revenues, says the government, citing market studies. Moving oil by pipeline, rather than by rail, is projected to save companies \$1 billion a year. Then there are royalties projected to result from the pipeline expansion, which will triple the capacity to ship heavy, light and refined petroleum products to Vancouver. These are estimated to be about \$46 billion.

What does this do for the already modest climate targets?

According to a November 2016 report from Environment and Climate Change Canada, the total upstream greenhouse gas emissions of the expanded Trans Mountain pipeline would be between 21 megatonnes and 26 megatonnes per year. Of that, 13 to 15 MTs would come from the expanded pipeline's extra carrying capacity, the report says.

And while department's projections from last December show Canada is already on pace to fall short of its 2030 emissions target — the projection says it will hit 583 MTs, instead of 517 MTs, that year — Environment Minister Catherine McKenna has repeatedly said extra emissions from the Trans Mountain expansion fit within the government's climate action plan. That's because Alberta's NDP government is proposing a hard cap of 100 MTs of annual emissions from the province's oilsands to meet the 2030 target. New emissions from the pipeline would have to be offset by reductions elsewhere to fit within Alberta's cap.

What are the environmental risks?

This question lies at the heart of B.C.'s opposition to the project. The expansion would increase the capacity of the pipeline to 890,000 barrels per day, up from 300,000 barrels. There is the risk of a spill along the pipeline route. There is also the risk of a tanker spill, once the oil has been delivered to port. B.C., in particular, is concerned about the possibility of a spill in coastal waters. As noted, the federal government tried to mitigate those concerns with its "oceans protection plan" meant to improve marine safety and respond to spills, but B.C. says that strategy doesn't go far enough. It says the effects of a bitumen spill are not well known. Once the federal government takes ownership of the project, Canadian taxpayers will be on the hook to pay for the clean-ups of any spill.

What are the implications for federal-provincial relations?

The project has sparked a nasty feud between Ottawa and Alberta on one side and B.C. on the other. NDP-led governments are in power in each, but B.C.'s minority NDP government is propped up by three Green Party members and opposes the pipeline for environmental reasons; Albert's NDP government sees moving its oil to market as vital to its economic interests and has threatened to curtail energy exports to B.C. in retaliation for their opposition. More broadly, other provinces, notably Quebec, are closely watching the debate and its implications for federal involvement in such projects elsewhere in the country.

What are the implications for reconciliation with Indigenous peoples?

This will be a challenge for the Liberal government. Trans Mountain has signed 43 benefit agreements with Indigenous groups in B.C. and Alberta to share some \$400 million with these communities. But other Indigenous groups remain opposed to the expansion and have vowed to keep up their protests to the project. " 'No' means 'no,' the project does not have the consent it requires, and we will not stand down no matter who buys this ill-fated and exorbitantly priced pipeline," said Grand Chief Stewart Phillip, president of the Union of B.C. Indian Chiefs after

Key questions answered about Ottawa's takeover of the Trans Mountain pipeline project

Ottawa's announcement. Minister of Indigenous Services Jane Philpott said that Ottawa will ensure it is "fully respectful" of the rights of Indigenous Peoples.

What are the implications for current or anticipated legal actions?

Uncertain at this time. Ottawa has always insisted that, because the pipeline crosses provincial boundaries, the project falls squarely into federal jurisdiction. B.C. is challenging that claim and has gone to court seeking clarification over the province's powers to control "substances #8230; that could potentially cause devastating environment and economic harms if they are spilled." Government officials say it is much harder for the B.C. government to make laws against a federal Crown-owned project.

Who wins? Who loses?

Alberta Premier Rachel Notley comes out a winner. She's been an advocate of the pipeline and the expansion will move more oil and ultimately boost her province's economy. B.C. Premier John Horgan may also be on the winning side. Horgan, leader of a minority government, may ultimately fail in his attempts to block the pipeline expansion, but B.C. voters may still reward his determination. It's too soon to say how Prime Minister Justin Trudeau may fare. Trudeau has tied his government's fortunes to the pipeline getting built. But the decision to take ownership of the project now puts the Liberals squarely on a collision course with their opponents and that could cost them in B.C. in the 2019 election.

Classification

Language: ENGLISH

Document-Type: COLUMN

Publication-Type: NEWSPAPER

Subject: GOVERNMENT & PUBLIC ADMINISTRATION (91%); AGREEMENTS (89%); TAKEOVERS (89%); EMPLOYMENT GROWTH (78%); CITY GOVERNMENT (73%); GOVERNMENT DEPARTMENTS & AUTHORITIES (73%); LIBERALISM (73%); PUBLIC OFFICIALS (73%); ENERGY DEPARTMENTS (72%); MARINE CONSERVATION (66%); INDIGENOUS PEOPLES (65%); BUSINESS EDUCATION (62%); JOB CREATION (60%); ENERGY & UTILITY LAW (50%)

Company: KINDER MORGAN INC (53%)

Ticker: KMI (NYSE) (53%)

Industry: NAICS486210 PIPELINE TRANSPORTATION OF NATURAL GAS (53%); NAICS221210 NATURAL GAS DISTRIBUTION (53%); NAICS213112 SUPPORT ACTIVITIES FOR OIL & GAS OPERATIONS (53%); NAICS211130 NATURAL GAS EXTRACTION (53%); NAICS211120 CRUDE PETROLEUM EXTRACTION (53%); SIC4924 NATURAL GAS DISTRIBUTION (53%); SIC1389 OIL & GAS FIELD SERVICES, NEC (53%); SIC1311 CRUDE PETROLEUM & NATURAL GAS (53%); OIL & GAS PIPELINE CONSTRUCTION (90%); PIPELINE TRANSPORTATION (90%); OIL & GAS INDUSTRY (78%); ENERGY DEPARTMENTS (72%); OIL EXTRACTION (72%); INSURANCE COVERAGE (68%); MARINE CONSERVATION (66%); ENERGY & UTILITY LAW (50%)

Key questions answered about Ottawa's takeover of the Trans Mountain pipeline project

Geographic: OTTAWA, ON, CANADA (91%); VANCOUVER, BC, CANADA (79%); BRITISH COLUMBIA, CANADA (73%); ALBERTA, CANADA (58%); CANADA (93%); ARCTIC (70%)

Load-Date: June 2, 2018

End of Document